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## Revitalization Model for Village Unit Cooperative in Indonesia

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**Abstract:**

*Rapid expansion by modern businesses impacts significantly on traditional businesses, including Village Unit Cooperative as a business model mandated by The Indonesian Primary Constitution, i.e, The Constitution of 1945. Several weaknesses faced by Village Unit Cooperative against modern business include limited resources (i.e, financial and infrastructure), low level of education for employees and managers, traditional managerial style, and so-forth. Data collected through in-depth interview with the head of the cooperative unit and other related officers as well as village unit cooperatives' managers and staffs in Banyumas Region, Indonesia as a sample of this study, conclude that almost Village Unit Cooperatives are in bad financial performance. Therefore, it needs an effective revitalization model to strengthen both financial and nonfinancial performances of cooperative to keep the survival of this business.*

*This study aims to find out an effective revitalization model that could be implemented on Village Unit Cooperatives in Banyumas region in particular and as a model for all Village Unit Cooperatives in Indonesia in general. Therefore, the Village Unit Cooperatives are able to survive and contribute in boosting populist economic system for Indonesian people. To achieve this objective this study implements qualitative approach by using observations, in-depth interviews, and focus group discussions in data collection during the 2014-2015 period.*

*Then, data is analyzed with the interaction method which consists of data reduction, data presentation and drawing a conclusion to develop the most appropriate revitalization model for Village Unit Cooperatives in Indonesia. Moreover, findings of this study suggest that the revitalization of Village Unit Cooperatives could be developed in several steps, i.e, classifying Village Unit Cooperatives into active and inactive, reactivating and merging inactive Village Unit Cooperatives, restructuring all Village Unit Cooperatives, and strengthening their businesses.*

**Keywords:** Village Unit Cooperatives, Revitalization Model, Qualitative Approach, Interaction Method, Restructuring. **JEL Classifications:** C51, M10, M13, M19.

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## 1. Introduction

Indonesia is a developing country with emerging economy and relatively high level of poverty and unemployment, where the government structure from central to local governments consists of provinces, regions, districts, and villages. There are 34 provinces in Indonesia with each province consists of around 35 regions. Moreover, a region generally consists of 27 districts, meanwhile, each district consists of around 18 villages. One of the main Indonesian government targets currently in economic development is poverty alleviation. This target coincides with *millennium development goals* designed by United Nation to reduce the number of poor people, particularly in developing countries including Indonesia (United Nation, 2015).

This study aims to reveal one of the possible ways in alleviating poverty by optimizing traditional business, i.e, Village Unit Cooperative (hereafter VUC). VUC is a type of cooperative consisting several sub-businesses, such as : means of farming production, trading, farming, micro banking, and so-forth having a location in each district within Indonesia particularly in the rural area for villagers (Drafting Team, 2013). VUC has been existing in Indonesia for long generations which provides essential goods for the people and in the same time provides job vacancy particularly for uneducated and/or low level of education person.

As explained by the 1945 Constitution (1945), VUC is the main pillar of the Indonesian nation's economy so it becomes the duty of every citizen to continue to preserve this type of business to survive and be able to support the country's economy. As a result, VUC will be benefiting for its members and society in general by providing essential goods needed. Moreover, VUC is also able to provide job vacancy for the villagers. To realize the said purposes, the role that VUC should play in the future is like the production and marketing of agribusiness commodities and other sectors which are essential for the villagers in particular in particular and its members in general, so that VUC can actually become the backbone of the country's economy.

Moreover, Law of Republic of Indonesia No. 25 the year 1992 Concerning Cooperative explains that the cooperative as a pillar of the national economy has the following characteristics:

1. Cooperative is a business entity consisting of persons and conducting business activities as other business entities by utilizing all the capabilities of its members.
2. Cooperative activities are based on cooperative principles, namely, membership is voluntary, management is democratically conducted, and the distribution of the remaining results of operation (*Sisa Hasil Usaha* =

- SHU) is done fairly in proportion to a number of business services of each member.
3. Cooperative is a people's economic movement based on the principle of kinship. In the economic order of Indonesia cooperatives is one of the economic strength that grows among the wider community as a driver of the growth of national economy with the kinship principle.
  4. Indonesian Cooperative aims to prosper members in particular and society in general.

In the process leading to its development and success, VUC as a rural cooperative established by and for rural communities or villagers, in fact to this day still has several problems and weaknesses that can hamper its development and success. Therefore, the said problems and weaknesses, need to get attention and sought the solution. The problems of VUC and cooperative in general can be caused by various factors, both internal and external factors. The internal factors such as (1) VUC is weak in organization and management, (2) inadequate service and capital facilities, and (3) lack of proper direction in the continuity of development of economic activity. Meanwhile, the external factors such as (1) the community have not been fully convinced that the cooperative is an effective means to overcome the economic weakness and in improving people welfare, (2) the absence of integrated cooperative development master plan, and (3) lack of adequate infrastructure to generate excitement cooperative (Tambunan and Chairulhadi, 2009).

This study argues that there are several possible efforts to overcome the VUC's problems and weaknesses which VUC is able to do such as by providing goods and services needed by its members, enabling members with intense extensions, directing VUC on its ability to become a multi-business cooperative by optimizing the potential of each region, improving the capability of internal and external organizations of VUC, and strengthening cooperative management. However, these possible efforts are still not done properly for VUC in Indonesia. As a result, almost VUCs in Banyumas region particularly and in Indonesia generally are not in a good financial condition.

Preliminary interview conducted by the researchers with the head of the cooperative department for the Banyumas region, Indonesia on mid of January 2014 informed that there are 25 VUCs in this region. Banyumas region consists of 27 districts and located in Central Java province. It means that 2 districts do not have VUC. Surprisingly, from those 25 VUCs, only 14 are active, with 5 VUCs are in good financial condition and 9 VUCs are not. Meanwhile, the rests of VUCs are no longer having business activities. Based on the interview, it is known that some efforts have been undertaken by the cooperative department of Banyumas region, including soft loan which so-called 'dana bergulir' or

‘revolving fund’ in the amount of IDR 50,000,000 to recover the inactive VUCs. Unfortunately, the result is still far from its expectation.

Moreover, from the interview it is also known that VUC ever experienced success in the past, that is in the Soeharto regime era of the 1980s to 1990s with strong financial performance. However, information revealed from the interview indicates that the success of cooperative in the past era (i.e, Suharto regime) was caused by the monopolistic system for VUC in managing several products (i.e, clove and fertilizer). Thus, after the VUC is no longer having the monopolistic right, it is not ready to compete with other business competitors, particularly from modern businesses. As a result, several VUCs went bankrupt or could still operate but with very poor financial performance. To overcome above mentioned VUC financial problems, the Head of Cooperative of Central Java Province issued a letter with number 005/3071/2013 on 1 November 2013 inviting all VUC’s managers in Banyumas dan Purbalingga regions to discuss the revitalization program for VUCs. The result of this meeting recommended that all VUCs within both regions should be revitalized, started by restructuring the VUC’s organization.

Considering above discussion, this study aims to develop the most appropriate model to revitalize the VUCs in Banyumas region as a sample of this study. It is expected that the revitalization model resulted from this study can be used to revitalize all VUCs in Indonesia. To achieve this objective, it was conducted in a couple of years longitudinal research (i.e, 2014 and 2015). Thus, the urgency of this research is: (1) almost VUCs in Indonesia generally and in Banyumas region particularly need to be revitalized as soon as possible due to their bad performance (2) no previous studies to examine the revitalization model for cooperative in Banyumas region, where the result of this study could be a model for VUC revitalization for Banyumas local government particularly and other local governments in Indonesia generally (3) as a basis to optimize the potential of VUC in Banyumas particularly and Indonesia generally, and formulate an appropriate strategy in developing this business.

This paper is organized as follows. Section 1 is the introduction. Section 2 highlights the concept, theory, and regulation related to the Indonesian economic system, VUC, and Indonesian government regulations on cooperative in general and VUC in particular. Section 3 discusses the literature review. Section 4 focuses on research methodology and data analysis. Section 5 elaborates the research findings and discussion. Lastly is section 6 which explains the conclusion of the paper.

## **2. Concept, Theory, and Regulation**

### ***2.1 Village Unit Cooperative (VUC)***

Cooperative as a 'people economic movement' is a form of business mandated by The Constitution 1945 such explained on article 33 point 1 which has objectives not only to create a profit but also to create the welfare of its members. Concluding from that article, Ropke (1995) defines cooperative as a business in which owners/members are also the customers. This identity so-called 'dual nature' distinguishes cooperative from other forms of businesses (i.e, personal business, *commanditaire vennootschap*, corporation, and so-forth). Based on such argument, Hendar and Kusnadi (2005) contend that cooperative's activities should refer economically on above principal identity, where each cooperative's member is also the owner and the customer as well. Therefore, by optimizing their role, cooperatives in general and VUC, can contribute positively to support Indonesian economy in reducing poverty by providing goods and services needed and job vacancies for its members.

VUC is a type of cooperative which manages several businesses comprising of villagers which generally located in a district. The present of VUC in each district aims to boost economic growth by income distribution through rural area based on the balance of social justice. It coincides with Presidential Decree number 2 the year 1978 which instructed each head of the district in Indonesia to establish a VUC aiming as an economic medium to support the economy of the villagers, particularly for poor people by improving their welfare. Therefore, VUC is a national program mandated by The Constitution 1945 to improve welfare for all Indonesian people.

The legal basis for VUC is presidential instruction number 4 the year 1973 which is revised by presidential instruction number 2 the year 1978 increasing the role of VUC, and ultimately revised by presidential instruction number 4 the year 1984. Presidential instruction no. 4 the year 1984 article 1 point 2 states that VUC development is directed in order VUC to be a service center for all its members. This regulation enables the cooperative department in each local government to give funding support in supervising cooperative's business to boost its business activities. With this regard, cooperative will be able to provide better services for all its members, particularly from poor people.

## **2.2 Revitalization Program**

Drafting Team (2013) defines a revitalization as a process or method to revive something that is less empowered. From the definition, it can be concluded that the revitalization of the VUC will include all the necessary efforts to revive the VUC and drive business growth through various efforts made collectively from the department of cooperative, the cooperative management, and related associations to increase the professionalism of the cooperative's management.

DFID (2010) recommends that the revitalization efforts will be effective when all related parties work together to improve the cooperative performance. Donors,

public sector, and government can support the cooperative in strengthening its role to alleviate poverty, promoting government public oriented policies, strengthening the cooperative network, helping cooperative in getting financial access, developing the capacity of local government, and improving market access. Through revitalization program, it is expected that cooperative has a strong commitment to improving the quality of life for its members by providing a necessity, empowering all members, and conduct mentoring activities to supervise members' businesses (Edgemoor Team, 2008; MCSMBERI, 2010).

### **3. Literature Review**

Previous studies about revitalization on cooperative found evidence in several countries. Bhatt and Bhat (2013) examined the efficiency for 8 saving and loan cooperatives (hereafter SLC) in Jammu and Kashmir provinces, India. By using data envelopment analysis (DEA) approach, the result showed that 3 SLC measured by return stability are inefficient condition and 5 SLC are efficient if measured by return to scale. The findings provide an important knowledge to improve the efficiency of the cooperative.

Clark (2011) tried to revitalize the Cooperative of Auburn Avenue (CAA), Georgia State University by using a qualitative approach. It was started by using analysis of strengths, weaknesses, opportunities, and threats (SWOT). The results recommended that CAA should be able to allocate its resources effectively, seek a new source of financing based on shared vision, and mobilize its members to develop surrounding CAA location. Regional development is done by strengthening networks between CAA with the business environment and non-profit institutions such as churches, charities, and government offices, forming a community economic development in and around CAA. Those groups eventually run their respective roles, so the revitalization of CAA will facilitate each group reach its goal.

DFDI (2010) conducted a study in developing countries which include Kenya, Uganda, Bangladesh, Tanzania, Nigeria, Rwanda, Malawi, Palestine and so on. Generally, DFDI has managed to revitalize the cooperatives in these countries. Data show that observed cooperatives throughout the country successfully employ more than 100 million poor people. Cooperatives can help markets to work better for poor people to manage the informal sector in supporting livelihoods, securing access to resources for farmers, processing raw materials into products that are more profitable, and expanding access to financial institutions. Tambunan and Chairulhadi (2009) tried to identify the factors influencing the bad performance of cooperatives in Indonesia. They started by deconceptualizing the definition of cooperatives thus it will be able to clearly measure the performance of cooperatives whether by high profitability or by increasing the welfare of its members.

Bond (2009) conducted an empirical test on the hypothesis that the supervisory board of the cooperative and the size of the board can affect the performance of cooperative. Further research results compared with good corporate governance literature proving the acceptance of this hypothesis, so it recommends that the large size of the supervisory board will encourage the growth of cooperative performance as a function of control to be optimal.

Frederick *et al.* (2009) conducted a study on cooperatives in 11 African countries, namely: Ethiopia, Egypt, Kenya, Uganda, Rwanda, South Africa, Nigeria, Ghana, Niger, Senegal and Cape Verde. The purpose of this study was to gain an understanding of the strengths and weaknesses of the cooperative in these countries and to optimize the potential of cooperative in alleviating poverty through job creation, strengthening human resources, promoting economic growth, strengthening the protection of members and the community, and strengthening the community representatives of the poor in House of Representatives.

Edgemoor Team (2008) has made revitalization and strengthening of the cooperative housing Edgemoor Garden (EG) in Maryland, USA. The existence of the cooperative is able to serve all the needs of citizens EG housing by providing daily necessities, health care, maintaining a good standard of living, and working with religious institutions directing the lives of youth through community development. The existence of this cooperative is perceived positive benefits by EG residents.

Yusuf and Gustomo (2007) identify cooperative ABC human resources issues. It is done by mapping the current state of human resources management and comparing it with the Cooperative XYZ which is a cooperative used in the management of cooperatives in Indonesia. Mapping the problem is done with the method of questionnaires and interviews, while to identify the pattern of human resource management (HRM) issues is done by dividing the aspects of HRM into 5 dimensions, namely target, organizational conditions, conditions of human resources management, culture, and integration. The five dimensions are used as a tool in identifying the problems of HRM in ABC's cooperative. HRM identification results showed gaps both in human resource management for the 5 dimensions measured. The order of priority repairs are respectively the dimensions of culture, organizations conditions, direction and goal, the condition of the human resources management and integration.

Hardesty and Salgia (2003) compare the performance of agricultural cooperatives in California with other enterprises in four aspects, namely daily needs, agricultural needs, vegetables and fruits, and grains. Then, they compared the profitability, liquidity, leverage, and efficiency of those cooperatives with those

enterprises during 1991 to 2002 periods. The results concluded that cooperatives for those four ratio aspects are lower, except for the daily needs.

#### 4. Research Methodology

This study uses a qualitative approach designed in the format of research and development in two years, i.e, 2014 and 2015. It takes a series of cycles of activities ranging from the need assessment—action—reflection—evaluation—innovation; in a systematic research. It was started by needs assessment to identify strengthens, weaknesses, threats, and opportunities of 25 VUCs in Banyumas region. Therefore, it can find the most appropriate model for revitalization of VUC in Banyumas region particularly and in Indonesia generally.

The participants of this study are all managers of 25 VUCs in Banyumas region and Banyumas local government officers through the department of cooperative. Data was collected through observation, open questionnaire and in-depth interview, and focus group discussion with the managers or executives of cooperatives in Banyumas region and related parties such as Banyumas local government. Based on the findings in 2014 and 2015, this study develops the most suitable revitalization model for VUC by using the best and the most successful VUC in Banyumas region, i.e, Aris VUC as a model for other VUCs. If required, further observations were conducted in accordance with the steps as prescribed, such as in-depth interviews and focus group discussion.

Data was analyzed with the interactive model (Miles and Huberman, 1994) which includes: (1) data collection, (2) data reduction, (3) data presentation, and (4) drawing conclusion (verification). In this technique, the analysis was carried out continuously from the start of data collection to the end of the process, i.e, drawing conclusion. The SWOT analysis was used to determine the strengthens, weaknesses, opportunities and constraints/threats faced by VUC, then it was used as a basis in formulating a model on VUC revitalization.

#### 5. Finding and Discussion

##### 5.1 Scope of The Study

This study was conducted in Banyumas region, Indonesia by using 25 VUCs spreading in various districts in Banyumas. The list of VUCs in Banyumas region could be seen in table 1 as follows:

**Table 1.** *List of VUC in Banyumas Region, Indonesia*

No	Name of VUC	District
1.	VUC Mekar Tani	Pekuncen
2	VUC Ajibarang	Ajibarang



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3	VUC Rukun Tani	Cilongok
4	VUC Bhina Rahardja	Gumelar
5	VUC Lumbirejo	Lumbir
6	VUC Wangun	Wangon
7	VUC Dewi Sri	Jatilawang
8	VUC Gotong Royong	Rawalo
9	VUC Kebasen	Kebasen
10	VUC Patikraja	Patikraja
11	VUC Lestari	Karang Lewas
12	VUC Endah	Kedung Banteng
13	VUC Bahtera	Baturraden
14	VUC Mustika	Sumbang
15	VUC Tri Murti	Kembaran
16	VUC Tani Mukti	Sokaraja
17	VUC Tani Maju	East Purwokerto
18	VUC Sadar	Kalibagor
19	VUC Aris	Banyumas
20	VUC Bumirejo	Somagede
21	VUC Kemranjen	Kemranjen
22	VUC Sumpiuh	Sumpiuh
23	VUC Tridaya	Tambak
24	VUC Purwojati	Purwojati
25	VUC Ubed	West Purwokerto

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*Source: The Cooperative Department of Banyumas region, 2014.*

Results of the first year of the study (i.e, 2014) documented that 25 VUCs located in Banyumas, only 15 are still operating, namely: (1) VUC Tani Maju in East Purwokerto, (2) VUC Sadar in Kalibagor, (3) VUC Patikraja in Patikraja, (4) VUC Kebasen in Kebasen, (5) VUC Gotong Royong in Rawalo, (6) VUC Mekar Tani in Pekuncen, (7) VUC Bhina Rahardja in Gumelar, (8) VUC Bahtera in Baturraden, (9) VUC Endah in Kedung Banteng, (10) VUC Dewi Sri in Jatilawang, (11) VUC Wangun in Wangon, (12) VUC Bumirejo in Somagede, (13) VUC Mustika in Sumbang, (14) VUC Rukun Tani in Cilongok, and (15) VUC Aris in Banyumas.

The results of the study at above document that from 25 VUCs in Banyumas region, 10 VUCs are no longer exist and only 15 VUCs are still active. However, those 15 active VUCs generally are not in a good financial condition. It is alarming that the condition related to the VUCs in the Banyumas region is representing a similar condition for all VUCs in Indonesia. Therefore, it needs urgent treatment by the central and local governments as well as the related parties in Indonesia to overcome the issue to protect the VUCs from total bankruptcy.

This study uses VUC Aris located in Banyumas district (which also the name of the region) as a pilot model for all VUCs in Indonesia because it is the best and

the most successful VUC in Banyumas region as well as in Central Java province and Indonesia with very good performance both financial and nonfinancial. This VUC develops several business units with rapidly growing and not limited to business units recommended by the local government. VUC Aris implements a modern managerial system which is quite capable in developing its business. Moreover, human resource support is also a determining factor for the success of VUC Aris in the era of the Millennium Development Goals. The successful development of VUC Aris is expected to be one of the early steps in improving the performance of VUC that could be applied in all VUCs within Banyumas region in particular and Indonesia in general.

### ***5.2 The Profile of VUC Aris as a Model of a Successful VUC***

VUC Aris located in Banyumas is a VUC with the best performance either financial or nonfinancial in Banyumas region and a pilot VUC in Central Java Province. One of the advantages of this VUC is its capability to produce superior products that are different from other VUCs. VUC Aris was established in 1973 and recently has several business units spreading in many locations, i.e., the complete store unit, the rice mill unit, the saving and loan unit, the cafe unit, the fertilizer distributor unit, the agricultural tools unit, the electrical payment unit, and the internet and speedy unit. Each business unit in VUC has a good system and manages its business with autonomy. It means that each business unit held by each unit's manager reports business activities directly to the VUC's manager. The availability of human resource both with undergraduate and postgraduate background of education is also one of the advantages of VUC Aris in developing innovations to become more advanced.

The result of SWOT analysis for VUC Aris documents that it has several advantages such as having a business legality, having a good managerial structure, having detailed documents, having several business unit with good financial position, having implemented information technology in managing its business, having experienced staffs, having several sources of capital either from government or private sources, having used its domain on social network such as Facebook and WhatsApp group to promote its products, and the most important one is where this VUC has high integrity and dedicated chairman which is not available in other VUCs.

However, besides its advantages, the Aris VUC also still has several weaknesses, such as still requiring additional capital for business expansion. Moreover, there are some opportunities for further development of Aris VUC, i.e., the purchasing power of the people is very high especially for saving and loan unit and self-service unit, strongly supports the potential areas for developing operational business, good cooperation with the private sector and government as well, larger business opportunities to expand market share, strong support from local government, and the implementation of cooperative development program

conducted by the department of cooperative is very important opportunity as long as VUC Aris can manage it well.

Furthermore, beside opportunities explained at above, there are several threats faced by VUC Aris, namely, the members participation rate is still low due to members are not utilizing cooperative business unit as a whole, awareness and understanding of society as a whole is still low because of the available resources do not have appropriate educational background, and high competitive business environment surrounding its location.

### ***5.3 Analysis of Strengths, Weaknesses, Opportunites and Threats for VUC***

#### ***5.3.1 Strengths***

Considering several conditions discussed at above, generally, VUCs in Banyumas region have advantages or strengths such as all VUCs have business legality, have managerial structure, on average all VUCs have a complete document except for VUC Sadar, have appropriate managerial experience, have appropriate infrastructure, have appropriate support on capital structure from government and private sectors, and each VUC manages more than one business unit. If the VUCs in Banyumas region particularly and in Indonesia generally are able to maximize these advantages, the VUCs will be able to improve their competitiveness against modern businesses.

With the business legality, it is expected that VUC can get easiness in running its business, such as when requiring financial assistance from a bank or other financial institutions. Meanwhile, by having a managerial structure, it will facilitate the VUC in delegating authority and division of work to management and employees. Ultimately this condition will create a conducive working environment to improve the efficiency and effectiveness of the work of management and employees in achieving the organization's goals and targets.

Moreover, with the completeness of recording all business documents, this could be a useful basis to support the business management process professionally. Thus, if all existing transactions are adequately recorded, then VUC will be able to make adequate financial reporting as well. As a result, it will encourage the VUC to increase the professionalism of management. Again, this condition will become more optimal in the presence of other advantages possessed by VUC, that is an adequate managerial experience. In other words, by combining adequate reporting and managerial experience will further enhance the professionalism of VUC's business management.

Furthermore, by having an appropriate infrastructure will enable VUC to run the existing business units. Ultimately, regarding other advantages, i.e, appropriate support on the capital structure from government and private sectors and has more than one business unit will facilitate VUC to continue to innovate in

improving the various other business segments. In the other word, capital support from the government as well as private sectors will allow VUC to expand its business.

### *5.3.2 Weaknesses*

However, beside the strengths of VUC as discussed above, there are several weaknesses faced by VUCs in Banyumas region. Namely, lack of members participation, almost VUCs do not have proactive management where from 15 active VUCs only 5 VUCs have proactive management, on average the VUCs have less developed innovations to compete with other businesses, almost VUCs are very dependent on local government infrastructure, almost VUCs can not manage their assets effectively, almost VUCs have inadequate internal control systems, almost VUC have not adopted information technology in managing their business, and so-forth. Therefore, the VUCs in Indonesia need a technical support from the local governments in Indonesia to solve these weaknesses.

The lack of participation by members in most of VUC's activities occurs because of changes in people's lifestyles from old patterns that tend to care about the surrounding environment into new lifestyles that tend to be indifferent to the surrounding environment. Thus, there is a tendency that members will only spend time in the activities held by VUC when they need.

Meanwhile, from 15 VUCs in Banyumas region, only 5 VUCs have proactive management. The passive nature of managers in running this VUC's business generally occurs on VUCs whose performance is not good. Because the VUC business is not profitable, it affects the low welfare of managers, causing them not to be encouraged to actively manage the VUC's business. The evidence revealed from interviews and observations show that the inactive VUC managers are trying to find other sources of income outside VUC to meet their living needs. In other words, the work at VUC is only made odd jobs for them.

Most of VUCs in Banyumas region do not have the ability to develop innovations. This is due to several factors such as the limited expertise possessed by the managers and the consequences of other VUC weaknesses, which is highly dependent on the support of government infrastructure. The support itself is not always available always so that when the support is not available it will undermine the spirit of VUC's efforts including continuing to innovate in developing the products and services it provides. Finally, managers tend to run the VUC business in a perfunctory manner.

In addition, other VUC weaknesses are unable to effectively manage their assets, weak internal control systems, and have not yet adopted information technology to support the business. The ineffectiveness of business asset management is caused by a lack of understanding of asset management resulting in swelling of

operational costs. This is also due to the weak internal control system in the VUC which can be seen from not all VUC able to make financial reporting in accordance with accounting standards generally accepted for cooperatives. While not yet adopted information technology to prop up the VUC effort due to weakness in VUC's human resource capability.

#### *5.3.3 Opportunities*

VUCs in Banyumas region still have several opportunities in developing their business. Namely, the tendency on the rise of people purchasing power as the effect of economic recovery, VUCs still have broader operational areas that should be exploited further, better cooperation with the private and government sectors, VUCs gain benefit from the cooperative development program conducted by the department of cooperative on regional, provincial and central governments. Thus, the VUCs should act to be able to utilize these opportunities to strengthen their business.

The recovery of Indonesia's economic conditions, in general, has an impact on the increasing purchasing power of the people. This creates an opportunity for VUC to continue to create the products and services that society needs. This condition also provides an opportunity for VUC to expand the business segment to get more consumers, which in turn will increase the profitability of VUC.

As for other opportunities such as wider operational areas, good cooperation with the private sector and government, as well as some government support programs for the VUC, the VUC must be able to optimize all these opportunities. VUC must be able to take advantage of good cooperation with both government and private sector, as well as some government support programs for VUC to continue expanding market share in order to optimize operational areas that are becoming more and more fashionable

#### *5.3.4 Threats*

VUCs in Banyumas region in particular and in Indonesia in general still have several threats in managing their business. Namely, low participation rate of members because of not utilizing the cooperative business unit as a whole, very low awareness from the society on the importance of this traditional business makes low sense of belonging from the society, highly competitive business environment, several unpopular government policies in supporting VUC, and specifically, some VUCs in Banyumas still have a problem related to the ownership of business location.

The low member participation rates and very low public awareness on the importance of the VUC business posed a serious threat because it could have an impact on the declining contribution of members in advancing VUC's business. It needs an urgent effort by all cooperative managers, working with all stakeholders

so that this problem can be resolved by raising awareness among members and the community on the importance of this type of business which is mandated by Indonesia primary constitution (i.e., The Constitution of 1945) to sustain the economy of rural communities or villagers.

Moreover, other threats include a highly competitive business environment and some unpopular government policies in support of VUC. VUC needs to address the increasingly competitive business environment by maximizing all its resources so that it will still be able to survive and win the competition. Of course, support from all stakeholders is needed VUC especially in the face of competition with modern business. Meanwhile, for addressing some of the unpopular government policies such as lack of financial support for the VUC and too easy to grant business permits for modern businesses from large investors, it is urgent for the government to issue policies related to those issues in order to be more aligned to the VUC. Lastly there are some VUCs in Banyumas region that still have a disputed problem on the ownership of business location (i.e., land and building) with other business players. So it needs an active role by local government to overcome the problem.

#### ***5.4 Revitalization Model for VUCs in Indonesia***

Based on the data obtained in this study either by in-depth interviews or focus group discussions, we identified several potentials as advantages for VUC in supporting the economy of the people in Banyumas as a sample. Firstly, VUC belongs to the people, so the community ownership is higher compared to the other businesses. As a result, when the VUC's management can raise awareness among its members with this basic principle, this potential will be maximized to improve the VUC performance. Secondly, some VUC business units have policies to encourage the local economy by marketing local products. This is a good potential if VUC could form a good network by including indigenous people businesses in marketing their product to strengthen the local economy. Thirdly, several VUC business units can produce products at a competitive price when VUC is able to empower local producers. This mutually beneficial partnership will strengthen the business of VUC and the surrounding community. Fourthly, the close relationship between VUC's management with its members can create a conducive environment where the members have more trust to deal with VUC rather than other businesses. This condition will increasingly be optimized when the VUC is able to provide a convenient and a friendly shopping environment as on modern businesses (i.e, minimarket, supermarket, banking industries, and so-forth). Fifthly, VUC generally has a network of supply and marketing from indigenous business communities that have been existing for long decades. This potential can be optimized if VUC is able to improve this social networking system from the traditional model into a more professional one.

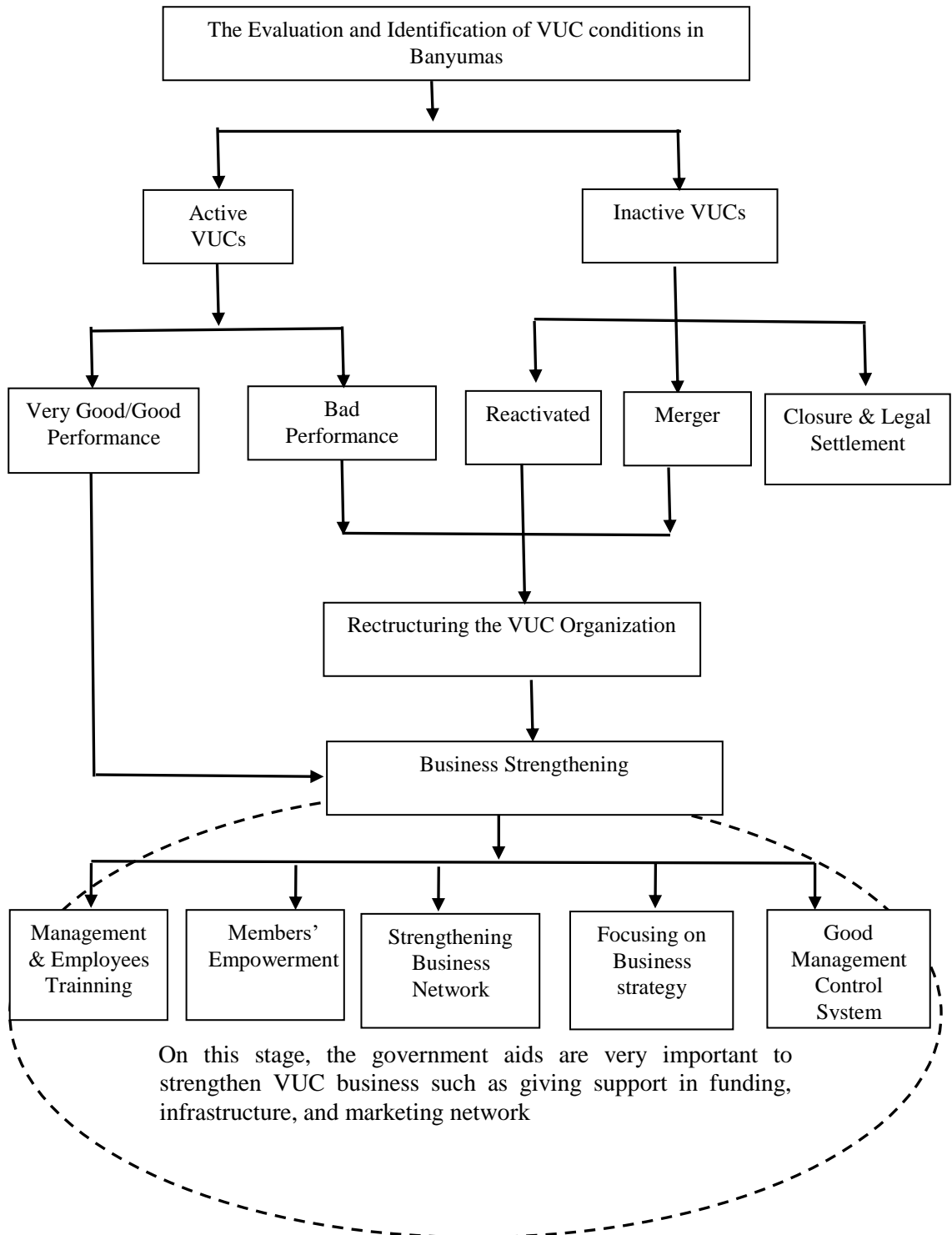
Moreover, this study identifies the problems faced by VUCs in Banyumas particularly and Indonesia generally in managing their business. Firstly, several VUCs still have problems with limited capital. This condition creates obstacles for some VUCs in supporting their business activities.

Therefore, it needs more significant role from local governments, VUCs managers, and other stakeholders to join all efforts in addressing these issues. Secondly, almost VUCs still implement traditional management that makes the VUCs are very dependents on certain people with a centralistic system of control. It causes VUC's management experienced difficulties in innovating and managing the business when each business decision should be done by the chairman. Thirdly, the participation of the VUC members is still not optimal, where the members still choose to fulfill their daily necessities in modern markets. Fourthly, the competitiveness of VUC is still not strong if compared to its competitors, particularly from big businesses. Fifthly, VUC generally faces problems of financial fraud committed by its managers as happened in several VUCs due to the weak implementation of the internal control system. This condition needs a more reliable control system to address this issue, linking between VUC's manager and its employees as well as other stakeholders.

Again, this study also finds several factors leading to low competitiveness of VUC against the modern business, such as the human resource is generally poorly trained. The role of local governments and related stakeholders also very important to design related training and education to improve the VUC's human capital. Then, low of networking with other businesses creates difficult conditions for VUCs to get good and cheap raw materials, market its products, and so-forth that ultimately creating low competitiveness of VUC if compared to modern businesses. Lastly, VUC still can not optimize the existing traditional business networking such as raw material procurement system, marketing system, production system and so on.

Considering all findings as discussed above, this study formulates a revitalization model for VUC in Banyumas region, Indonesia as on Figure 1 below.

Figure 1 at above explains a revitalization model for VUCs in Banyumas region that could be adopted by the department of cooperative within Banyumas local government and other local governments of Indonesia in general. First of all, VUCs in Banyumas region are classified into active and inactive. The findings from either in-depth interviews or focus group discussions with the head of cooperative department and other related officers as well as VUCs chairmen and managers in Banyumas region concludes that from 25 VUCs in Banyumas region, only 15 VUCs are active. It means that there are 10 inactive VUCs in Bayumas.

**Figure 1.** Revitalization model for VUCs in Banyumas Region, Indonesia.



This study has analyzed the conditions related to inactive VUCs in Banyumas region, either through in-depth interviews or focus group discussions. As a result, it has made further classification for those 10 inactive VUCs, wherein 4 VUCs could be reactivated, 4 VUCs are better to be merged, and 2 VUCs are better to be closed because of there are seen no hope to revive their business due to no longer business activities since several years ago and no existing management. The closure process should be accompanied by the settlement of legal cases related to its management. This paper does not disclose the names of those VUCs with their detail financial condition due to the sensitivity of this issue.

Moreover, for 15 active VUCs in Banyumas, this study classifies them into very good, good and bad performance. There are 2 VUCs with very good performance, namely Aris VUC located in Banyumas district and Rukun Tani VUC located in Cilongok district. Those VUCs manage several business units with the most profitable business units are minimarket unit and saving and loan unit. In other words, from all existing business units, both VUCs can create a very good profit so they are able to prosper the board and its members. While, specifically for Aris VUC, it can serve as a model that other VUCs need to emulate in the management of their business as it proves to have excellent financial performance. This is because the management of Aris VUC is very professional like a modern business.

Again, this paper finds 7 VUCs with good financial performance such as VUC Tani Maju located in East Purwokerto, VUC Patikraja located in Patikraja, VUC Kebasen located in Kebasen, VUC Bahtera located in Baturraden, VUC Wangun located in Wangon, VUC Bumirejo located in Somagede, and VUC Mustika located in Sumbang. While the rests (namely 6 VUCs) are in bad performance, that is, VUC Sadar located in Kalibagor, VUC Gotong Royong located in Rawalo, VUC Bhina Raharja located in Gumelar, VUC Endah located in Kedung Banteng, and VUC Dewi Sri located in Jati Lawang.

Furthermore, all inactive VUCs that could be reactivated and/or merged, along with other active VUCs with bad performance should be restructured. This process could be started from the restructuring of the VUC organizational structure. The Banyumas local government through the Department of Cooperative of Banyumas is strongly recommended to facilitate the whole restructuring process by replacing the management, supervisory board, and advisors with new persons who have good integrity and have good business vision. Supervisory boards could be pursued in order to involve more persons that will be able to optimize the monitoring function. The managerial structure of each VUC depends on its condition, both financial and nonfinancial. While the model of an ideal managerial structure for VUC as implemented in VUC Aris could be described in Figure 2 below.

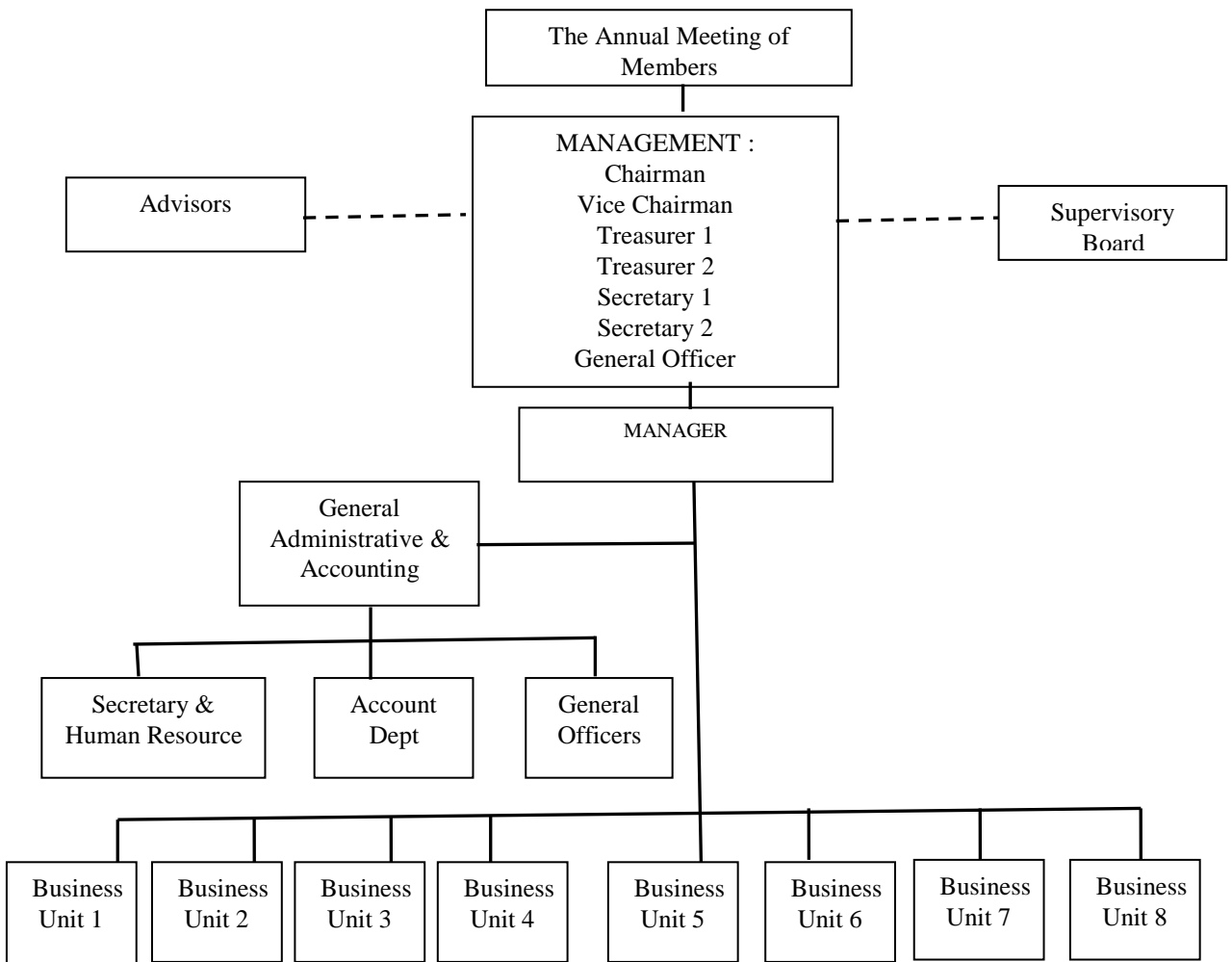
**Figure 2.** *Managerial Structure of VUC Aris as a Model in This Study*

Figure 2 at above explains how the organizational structure of VUC, where the annual meeting of members posits the highest authority in VUC. Then followed by other elements of an organizational structure such as management, advisors, supervisory board, manager, administrative functions, and business units. VUC management consists of a chairman, vice chairman, treasurer, secretary, and general officers in which the number of members of those elements depends on the condition of each VUC. Large VUC can employ more persons in its structure, while small VUC employs a smaller number of persons. Under the VUC management is a VUC manager who is responsible for managing VUC's daily

business activities. A manager is chairing several heads of business units who are responsible for managing business units which are under their responsibility.

Moreover, in the VUC structure should be a general administrative and accounting function to help the manager in managing daily business particularly related to book-keeping and recording functions regarding the business daily transaction. This function will provide the manager with the useful information, particularly financial information to help the manager in managing the business. This position should be filled by people who understand the financial reporting process well in accordance with generally accepted accounting principles so that it will be able to present the quality of good financial statements. Thus, VUC will become more professional in its financial reporting. Ultimately, it will also be very useful for the application of good internal control system in VUC.

Once the restructuring process is complete, all those reactivated VUCs and active VUCs with bad performance along with VUCs with good performance carried out the process of institutional strengthening which includes: management and employee training, members empowerment to optimize their membership function, strengthening business network including synergy with Master of VUC and Center of VUC on the provincial level, focusing business strategy, and implementing good management control system.

Training materials for managers and employees depend on the most urgent materials to improve the professionalism of VUC such as materials related to new government regulations, modern business management, strategy to get competitive advantages on business competition, and so-forth. While members empowerment could be started by checking the existence of membership card and promoting new VUC programs and products to all members. To optimize members activities, the focus group discussion reveals a solution to conduct regular meetings of members not only once a year at the annual meeting but also could be done monthly or at least once in every three months.

Regarding strengthening the business network, the focus group discussion suggests strong coordination between VUCs, the local government through the cooperative department, the traditional business managed by local people, and other stakeholders. This business network would create good networking in the procurement of raw materials and/or merchandises, therefore, can create lower purchasing price. Therefore, the VUCs in Banyumas and in Indonesia, in general, will be able to sell their products with competitive price.

Findings from in-depth interviews and focus group discussions document several business strategies that could be implemented by VUC managers to strengthen their business such as product diversity and completeness, competitive price, excellent service and promotion to the members and potential members, strategic

location for possible new business unit, strengthening of capital, and producing products that not be produced by big business such as organic fertilizer. Unfortunately, it is observed that there remain huge problems in the implementation of these strategies. For instance, product diversity and completeness can be achieved if they have a large capital. It means that with limited capital, this strategy could not be implemented well. Therefore, local governments in Indonesia should take initiative to provide easy access to funding for VUCs. Regarding the VUCs that still have a problem related to their limited capital, government policies are very important to help the VUCs having better access to sources of capital.

Moreover, VUCs should implement good management control system in managing their business. The main purpose of management control system is to design a system ensuring that managers and employees activities are in-line with organization policies. The highest structure of the organizational structure on VUC is the annual meeting of members. This meeting is held at least once a year in order to plan VUC activities to be carried out in the future as well as evaluating the performance in the current year. In the composition of the management, the tasks and responsibilities can be handled by the chairman, vice chairman, treasurer, secretary, and general officers. Then, their job description is synchronized with the task of advisors and supervisors, where the advisors have a responsibility to provide business advice whether requested or not. Moreover, the process of management control system involves informal interaction between the manager with unit managers or other functions.

With regard to all of those revitalization steps as discussed above, it is expected that all VUCs in Indonesia region will be independent, be advanced, and have high competitiveness such VUC Aris located in the district of Banyumas, Banyumas region, Central Java, Indonesia. In other words, VUC will become a professional business in serving all its members and welfare of all administrators or boards and employees. In the end, the rapid growth of VUC's business will help the government program in creating more jobs to reduce poverty.

## **6. Conclusions**

Generally, VUCs in Indonesia and particularly in Banyumas region already have a legal license, so that this condition can be utilized when VUC looks for sources of funding. Some VUCs have fundamental weaknesses, such as there is not maximal members' participation, not well-organized and professional management, and some VUCs still face the problem of limited capital.

There are still wider business opportunities for VUC in running the business. It can be done such as by way of expanding the number of memberships in order VUC can increasingly get sources of public funds, provide products required by

the community around which the purchasing power of people tend to be getting stronger, the extent of support from various parties on VUC efforts from both government and the private sectors, and there are many products that can be produced by VUC particularly for products that still not be produced by large business.

Threats faced by VUC come from the increasing number of new businesses particularly from the private sector, both domestic and foreign businessmen. An alternative model that could be applied by VUC in encouraging the revitalization is to classify the VUCs into active and inactive. The active VUCs are categorized into very good/good and bad performance, while inactive VUCs are analyzed for their conditions. Therefore, based on those conditions this study recommends three options for inactive VUCs in Indonesia, namely: revived for VUCs that still has a business prospect, merged with other VUCs to strengthen capital and market share, and closure for VUC seen no hope to be developed followed by solving its legal cases. Then, the VUCs needing reactivated or merged and active but with bad performance are restructured of its management. After the restructuring process is completed, along with VUCs with good performance are performed institutional strengthening which includes training program for VUC's management and employees, empowering members to optimize the function of a membership card, strengthening business networking including synergy with Master VUC and Center of VUC in the provincial level, focusing on business strategy, and implementing good management control system.

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